

conomic stability was the key goal but investment in public services is the key challenge," Blair said.

♦ *Kevin A. Bell is a U.K. desk editor with Tax Analysts.*

Singaporean Companies Seek Exclusion From Japan's Tax Haven Category

by *Grant Beaumont and Robert Marshall*

Singaporean subsidiaries of Japanese corporations have asked the Japanese government to exclude Singapore from Japan's "tax haven" list, the 28 February edition of the *JlJI English News Service* reported. The Japan Chamber of Commerce and Industry in Singapore reportedly may make a formal request to the Japanese government.

Under provisions of Japan's controlled foreign corporation rules governing foreign subsidiaries, a Japanese corporation that directly or indirectly owns 5 percent or more of the total shares in a "tax haven" subsidiary is taxed on its pro rata share of the subsidiary's undistributed profits.

A tax haven subsidiary is a foreign company with 50 percent or more of its issued voting shares or total shares directly or indirectly owned by Japanese companies or Japanese resident individuals (the percentage is measured at year's end) and its head office located in a jurisdiction that does not tax income or that has an income tax burden of less than 25 percent of the company's income. As to the 25 percent threshold, the foreign corporation's effective tax rate (ETR) is measured each tax year; to calculate the ETR, taxable income is determined according to Japanese tax rules.

When Singapore lowered its corporate tax rate below 25 percent, it moved into the "tax haven" category for Japan's CFC rules. (For prior coverage, see *2001 WTD 41-4* or *Doc 2001-5978* (5 original pages).) Thus, the difference between the Singapore tax rate and the higher Japanese tax rate (approximately 42 percent) will be payable by the Japanese parent company in Japan. Specific exemptions from Japan's foreign subsidiary rules apply in certain cases, such as when an active business is carried on in the foreign country.

According to *JlJI English News Service*, Singapore and Japan may address that issue in their ongoing bilateral trade talks.

♦ *Robert Marshall and Grant Beaumont are with Arthur Andersen in Tokyo.*

Singapore Announces Record-Setting Fiscal 2001 Budget

by *Linda L. Ng*

Singapore Finance Minister Richard Hu on 23 February unveiled the most generous budget¹ in Singapore's history. A higher than expected growth rate of 9.9 percent resulted in a large fiscal 2000 budget surplus, which the government has decided to share with taxpayers. The new budget is designed to increase Singapore's global competitiveness through a number of tax and other fiscal measures that encourage innovation, enterprise, and education.

New Corporate Tax Regime

Singapore's corporate tax rate will be reduced by 1 percent to 24.5 percent, with effect from year of assessment 2002. In addition, three-quarters of the first SG \$10,000 of a company's chargeable income and one-half of the next SG \$90,000 will be exempt from corporate tax. Any remaining chargeable income will be taxed at the new 24.5 percent tax rate.

The tax exemption will not apply to Singapore dividends received by companies. Such dividends will be taxed at 24.5 percent. The Inland Revenue Authority of Singapore has issued a circular² that provides further details. (Tax rates for nonresidents will also be reduced to 24.5 percent.)

The new corporate tax regime was prompted by the need to keep up with Germany, the United Kingdom, Australia, Ireland, and other developed countries that have lowered their corporate tax rates in recent years to stimulate growth and attract investments. While the government will continue to provide tax incentives to spur the growth of strategic industries, it also will lower the tax rate in general because it is becoming harder to pick winners in the new economy. The new tax exemption scheme will help many small, medium-sized, and start-up enterprises by cutting their taxes by more than half.

¹The full text of the fiscal 2001 budget statement is available at <http://www.gov.sg/mof>.

²IRAS Circular, dated 23 February 2001, available at <http://www.iras.gov.sg>.

Company Stock Option Scheme

In recognition of the importance of employee stock options as a motivational tool, Hu introduced a new company stock option scheme. Under the scheme,³ up to SG \$1 million of gains from the exercise of an employee's stock options over a 10-year period will be partially exempt from income tax. The first SG \$2,000 of gains each year will receive a 100 percent exemption from income tax, and 25 percent of any remaining annual gains will also be exempt.

The scheme will be available to companies that offer stock options to at least half of their employees.⁴ The stock option plan must satisfy the vesting-period requirement prescribed by the Singapore Exchange for companies listed on the exchange. Options on the shares of overseas holding companies will also be eligible. The scheme applies to options on ordinary shares that are granted on or after 1 April.

Withholding Tax Exemption for Software Payments

Payments to nonresidents for software site licenses, software downloaded from the Internet by end users, and software bundled with hardware will be exempt from withholding tax.⁵ The exemption, which aims to lower the cost of doing business in Singapore and to encourage businesses to use new technology, applies to payments due on or after 23 February.

Capital Expenditure on Intellectual Property

The government has improved the incentive scheme for patents and know-how. Capital expenditure on prescribed categories of intellectual property acquired on or after 23 February may be written down over a period of five years under the scheme. The categories are patents, copyrights and related rights, trademarks, registered designs, geographical

indications, layout designs of integrated circuits, and protection of confidential information.

Reduction of Property Tax Rate

To reduce business costs, the property tax rate for all properties (commercial, industrial, and residential) will be reduced from 12 percent to 10 percent, effective 1 July. The government encourages landlords to pass on savings from the property tax cut to their tenants.

Reduction of Individual Income Tax Rates and Rebates

Individual income tax rates for all income brackets will be reduced by 2 to 5 percent, effective from the year of assessment 2002. The top marginal rate will be reduced to 26 percent (down from 28 percent). The first SG \$7,500 of an individual's chargeable income will not be taxed. There will be a SG \$250 income tax rebate for the goods and services tax. The lower personal tax rates are intended to help Singapore retain its local talent and attract new foreign talent.

The government is also granting an across-the-board, onetime rebate of 10 percent on individual income tax in year of assessment 2001.

CPF Contributions by Self-Employed Persons

Self-employed persons will receive tax relief for retirement contributions to the central provident fund amounting to 36 percent of their income, subject to a maximum income of SG \$72,000, effective from year of assessment 2002. Thus, taxpayers running their own businesses will no longer be disadvantaged, because they will receive basically the same tax benefits as employers and employees combined.

Tax Deduction for Share Donations

To encourage philanthropy, individuals who donate shares listed on the Singapore Exchange, or unit trusts readily tradable in Singapore, to qualifying public institutions will receive tax deductions. The concession applies to donations from January 2001.

Excise Duty on Cigarettes

As part of the continuing national effort to discourage smoking, the excise duty on cigarettes will be increased from SG \$150 to SG \$180 per kilogram, effective 23 February.

◆ *Linda L. Ng is with the Asia Tax Group, White & Case LLP in Tokyo.*

³See fiscal 2001 budget statement, annex 1.

⁴That is to encourage companies to provide the benefits of the scheme to lower-paid workers as well.

⁵That is in addition to the withholding tax exemption for shrink-wrap software, effective 1 January. See "Exemption of Software Payments from Withholding Tax," first edition, and "Income Tax Guide on E-commerce," third edition, published by the IRAS on 23 February and available at <http://www.iras.gov.sg>; Income Tax (Exemption of Royalties and Other Payments for Economic and Technological Development) Notification 2001, made 21 February, G.N. No. S97, available as of 23 February at <http://www.egazette.com.sg> (free access is available for five days from the date of publication).